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GOVERNMENT OF INDIA
FINANCE DEPARTMENT

Speech by the Honourable the Finance Member on introducing the Budget proposals for 1947-48

It is my privilege to place before this House the first Budget to be presented by an Indian Finance Member. I am deeply conscious of the importance of the task that has fallen to me and it will be my endeavour so long as I hold this portfolio to promote in every way I can the economic prosperity and well-being of this sub-continent and of all sections of its population. It will be my particular endeavour to reduce, to the maximum extent possible, the glaring disparities that exist to-day between the income and standards of life of the wealthy classes and the vast multitude of poverty-stricken masses, and to contribute to the best of my ability to the improvement of the lot of the common man. In tackling these tasks, which have so far received inadequate attention, and which require all the time and effort that we are able to devote to them, I hope I shall have the support of all sections of this House and of the public outside.

2. I do not propose to dwell at any length on the developments in this country or outside in the interval since my predecessor presented his budget to this House. Although it is over eighteen months since the end of hostilities and statesmen in all countries have striven unceasingly for peace, the prospect of a just and lasting settlement seems as far away as ever while the rehabilitation of countries devastated by the war is proceeding with painful slowness. In our own country, as in other countries, the year that is closing has been a difficult year of transition. I need not dilate on the changes in the political field, as the events leading to the visit of the Cabinet Mission and the establishment of an Interim Government at the Centre, composed of the representatives of the two major political parties and the minorities and the Statement of His Majesty's Government of the 20th of February must be fresh in the minds of Honourable Members. These are momentous developments, especially the recent statement by His Majesty's Government declaring their intention to transfer complete power to the peoples of India not later than June 1948. It is yet too early to envisage clearly all the changes foreshadowed by the statement, but this much is certain that the responsibility for shaping the future now rests entirely in our own hands. And while we may well feel elated at the prospect of the freedom that awaits us we must not forget the heavy responsibility that lies on our shoulders to ensure that the transference of power from British to Indian hands is effected peacefully and that the freedom that is achieved is true freedom for all the peoples of this vast sub-continent.

In the economic sphere, the progress in the return to peace time conditions has not been as rapid or as smooth as could have been wished. Although the deflationary tendencies, which at one time were expected to manifest themselves soon after the end of the war, have happily not materialised, the transition to peacetime economy has been slow and halting. Inflationary trends have continued to persist and prices are still running high. The war-time shortage of consumer goods has not yet been materially alleviated, in spite of a large expansion of imports, as internal production has been unable to fill in the gap between the huge pent-up demand left over from the war years and the available supplies. Production has been hampered by the inevitable delay in obtaining capital goods in a world clamouring for them after the widespread devastation of war, by labour unrest and strikes in the country, by persistent difficulties in the rehabilitation of the transport system and by the terrible and tragic happenings in certain parts of the country which have not only marred the fair name of India but brought untold hardship and misery to large sections of the population. In addition to all these difficulties, in themselves formidable enough, there has been the continuous anxiety about the food position in the country whose normal shortage had been immensely aggravated by the failure of the rains in South India and parts of the North and the consequent threat of famine. We have fortunately staved off disaster thanks to the generous, but still inadequate, imports of foodgrains from overseas and the stringent rationing over wide areas of the country, but the position still continues to cause grave anxiety and cannot but have a hampering effect on the recovery of the country.

Without a measure of assurance about the shape of the future constitution, it is not easy to formulate any long term economic or financial plan and the House will appreciate the difficulty in which anyone in my position is placed in the circumstances. In view of the latest announcement of His Majesty's Government the coming year is bound to be full of intense political activity, and what will occupy men's minds most will be the prospective constitutional changes. But it does not follow that we should merely mark time till the constitutional issue is settled. Without in any way prejudging or prejudicing that issue, we can, and have to, go forward in tackling the urgent economic problems of this sub-continent and in raising the living standards of its peoples. The present inflationary trends have to be kept in check and provision made for maintaining the level of employment and production when deflationary trends manifest themselves as they are almost bound to sooner or later. Production has to be fostered and developed, the cost of living has to be reduced and, within the available resources, plans for the social and economic betterment of the people at large have to be implemented. In short, poverty has to be attacked on every front. I shall do all that lies in my power to assist in tackling these problems.

Before I go on to deal with the estimates I must express my regret to the House that it has not been possible to present this Budget in the usual detail. The reason is that Machinemen and Lino operators in the New Delhi Government Press have been on strike during the period crucial for the printing of the Budget documents and we have had to restrict our demand for printed matter to a minimum in consequence. I would like to mention that the Government Presses have been on strike intermittently since March 1946 in spite of ever increasing concessions covering shorter hours

of work, reduced standard of work measurement, more holidays, increased rates of Dearness Allowance, improved pensionary benefits and interim financial relief; the last of these being still further increased in January 1947 to cover the period from the 1st January 1945 to the 31st December 1946 at the monthly rate of Rs. 8 to industrial workers in the Presses on basic pay below Rs. 40 a month. In spite of this exceptionally generous treatment, the Press employees again struck work early this month with resultant dislocation at a particularly critical period for the Government and the Legislature. The strike terminated only on the 24th of the month.

FINANCIAL YEAR, 1946-47

Revenue

3. I shall now proceed to a brief review of the financial position in the current and the ensuing years.

The revenue receipts for the current year are now estimated at Rs. 336·19 crores an improvement of Rs. 29·66 crores over the budget.

Customs receipts are expected to improve by Rs. 23·02 crores partly as the result of larger imports made possible by a general easing of the supply and shipping position and partly to the imposition of export duties on cotton and tea and the enhancement of the export duty on jute. Under Central Excises, however, we now expect to realise only Rs. 42·78 crores against Rs. 44·32 crores taken in the budget. Under Income-tax we anticipated a total yield of Rs. 149·25 crores, Rs. 75 crores on account of E.P.T. and Rs. 74·25 crores on account of ordinary collections. We now estimate that the collections will amount to Rs. 72 crores on account of E.P.T. and Rs. 85 crores on account of ordinary collections. The divisible pool of income-tax is now estimated at Rs. 69·81 crores and the Provincial share, after adjusting an overpayment of Rs. 1·28 crores last year, at Rs. 29·87 crores.

The revenue from the Posts and Telegraphs Department we place at Rs. 31·15 crores, an improvement of Rs. 57 lakhs over the budget. But working expenses will be Rs. 4 crores more owing to the grant of interim concessions to the staff following the strike last summer and the award of the adjudicator appointed to enquire into their dispute with Government. In the result the net surplus is expected to be Rs. 4·78 crores against Rs. 8·33 crores estimated in the budget.

The Railway contribution is now taken at Rs. 5·61 crores against Rs. 7·36 crores taken in the budget.

Expenditure

4. *Defence Services*.—Following the practice introduced by my predecessor last year, I shall confine my remarks on the Defence Services to matters of policy or major financial interest, referring the House to the Explanatory Memorandum for fuller information regarding the activities of those services.

5. The original programme of general demobilisation which started in October 1945 has been largely adhered to but some retardation was necessary in the latter part of 1946 owing to internal disturbances in the country. Nevertheless the process of releasing personnel from the Services under that programme will be nearing completion by the beginning of the

budgetary year and it is anticipated that the provisional demobilisation target will be reached by about the middle of that year. On the 31st December 1946, the total numbers released since the commencement of demobilisation were army 1,187,000, navy 20,000 and air force 18,000. This, in the difficult conditions obtaining during the year, represents a notable achievement.

6. One event of considerable general interest which may eventually lead to some reduction in our defence budget is the setting up during the year of the Armed Forces Nationalisation Committee under the chairmanship of the Hon'ble Sir N. Gopalswami Ayyangar, which, as its title implies, is to enquire into ways and means of speeding up the replacement of non-Indian personnel by Indians throughout the Defence Services. Considerable progress has already been made towards this goal, and it is hoped that the deliberations of this Committee will result in its early attainment.

7. The budget estimate for the Defence Services for 1946-47 was Rs. 245 34 crores and the revised estimate is Rs. 240 11 crores. The decrease is due mainly to the receipts accruing to India from the sale proceeds of American surplus stores as a result of the Washington Lend-Lease Agreement to which I refer elsewhere in this speech, and to an overestimate in the budget of India's liability for stores. These factors were offset to some extent by heavier expenditure caused by the retardation of the rate of general demobilisation already mentioned, and heavy arrear payments on account of Reciprocal Aid to the U.S.A., chiefly relating to the supply of raw materials and compensation for damage to tea gardens requisitioned for the U.S.A. forces.

8. *Civil Estimates.*—The revised estimate of civil expenditure is Rs. 143 36 crores, an increase of Rs. 32 35 crores over the budget.

The reasons for the variations under individual heads resulting in this net increase are given in the Explanatory Memorandum accompanying the Budget Statement and I propose to mention here only the more important factors leading to this increase. The subsidising of imported foodgrains supplied to Provinces and Centrally administered areas to avoid disturbance to our internal price structure, which was decided upon after the budget was framed, is expected to cost Rs. 20 crores. The interim concessions sanctioned during the year to the low paid staff on account of the cost of living are estimated to cost Rs. 2 crores. There is a special provision of Rs. 3 crores under Civil Works for the clearance of outstanding liabilities for supplies. Expenditure on the Tribal Areas is expected to show an increase of about Rs. 1 $\frac{1}{2}$ crores mainly due to additional expenditure on works, the expansion of certain levies and the embodiment of fresh levies as part of the scheme for the gradual replacement of the regular Army in Frontier Defence by Civil Armed Forces. A payment of Rs. 2 $\frac{1}{2}$ crores has also been made during the year to the Government of Nepal in commutation of part of the annual present to that country for war services, to be utilised on development schemes such as hydro-electric projects of mutual benefit to both India and Nepal. Owing to additional expenditure on disposals and the slowing down of the pace of its contraction, the expenditure on the Department of Industries and Supplies is expected to be about a crore more than the original estimate. These special items account for nearly Rs. 30 crores of the net increase over the budget estimate. The balance is accounted for by increases spread over a number of heads mostly on the expansion of departments, purchases of additional stores and so on. The excess would have been somewhat

larger but for the saving of Rs. 4 crores in the provision for resettlement due to the slowing down of demobilisation and the time taken for the formulation of the necessary plans.

9. To summarise the position.—The current year's budget provided for a revenue of Rs. 306·53 crores and expenditure charged to revenue of Rs. 354·78 crores leaving a deficit of Rs. 48·25 crores. Revenue receipts are now estimated at Rs. 336·19 crores and expenditure charged to revenue at Rs. 381·47 crores leaving a deficit of Rs. 45·28 crores.

10. Before I go on to deal with the estimates for the coming year, I should like to advert briefly to one or two important points affecting Central expenditure in which the House will be interested.

11. The sudden cessation of hostilities in the East created two major problems which had to be given immediate consideration, *viz.*,

- (a) the cancellation of the pending demands for warlike stores, and
- (b) the transition of industry from war to civil production.

The expeditious reduction of the outstanding demands was necessary not only to prevent the accumulation of unnecessary stocks and to limit Government's financial liabilities to the minimum but also to release India's limited resources of productive capacity and essential raw materials for civil production. Two committees have, accordingly, been set up to finalise the reduction of demands before the end of the financial year and satisfactory progress has already been achieved. Cancellations of contracts to the value of Rs. 50 crores have been effected to the end of December for the payment of compensation of only Rs. 34 lakhs.

A Development wing has also been set up in the reconstituted Department for Industries and Supplies with the immediate task of assisting reconversion of industry from war to civil production by according necessary priorities, transport and other production facilities.

In the course of the year, a Technical Mission was brought out from the U.K. to advise the Government of India on the establishment of aircraft manufacture in this country. In accordance with their advice, the Hindustan Aircraft Factory at Bangalore is being reorganised to undertake the manufacture of aircraft as well as railway coaches.

Disposals

12. The House will remember that mention was made in the Budget Speech last year about the deputation of two senior officers to America to settle the financial issues arising out of Lend-Lease and Reciprocal Aid and the transfer to the Government of India of the stocks and installations accumulated by the United States authorities in India during the war and now surplus to them. A delegation went to Washington for this purpose last April and a satisfactory settlement has been reached with the United States Government. Under this agreement, all outstanding claims arising out of Lend-Lease, Reciprocal Aid, United States owned surpluses and all other claims arising out of the war have been cancelled subject to the condition that if the sale proceeds of United States owned surpluses, after deduction of customs duty, exceed the equivalent of 50 million dollars (equal to Rs. 10·7 crores) half the excess proceed should be paid to the United States authorities in rupees to be spent by them in India only on the acquisition and improvement of real property.

financing of agreed schemes of cultural and educational interest to the two countries and, if any balance is left, for defraying the governmental expenses of the United States in this country. Vigorous steps have been taken to feed the surpluses so acquired into the main stream of distribution. The total sale proceeds of the surpluses are likely to exceed 50 million dollars.

In addition to these American surpluses, considerable quantities of stocks held by the defence authorities have become surplus to the requirements of the armed forces as a result of the end of the war and subsequent demobilization. It is fully realised that the expeditious disposal of all these surpluses is not only in the financial interests of Government but also of the utmost importance to the economy of the country, and every effort is being made to ensure that no avoidable delays occur in dealing with them.

13. A problem similar to that of the disposal of surplus stores has also arisen in the case of the Ordnance and other factories set up during the war to meet the demands by Defence Services for Ordnance and other stores. Thirty-six such factories were established and the retention of many of them has been found to be unnecessary with reference to India's post-war requirements. An expert Committee was, therefore, set up to report on the future of these factories. In accordance with the recommendations of this Committee it has been decided to retain and regroup 15 factories as the peace time Ordnance establishment and to dispose of 21 factories, mainly Clothing, Harness and Saddlery Factories, as an integral part of our policy to divert capacity from war to peace production. Again, as the peacetime load of Ordnance stores on the factories earmarked for retention is negligible, it has also been decided that the spare capacity of these factories should be utilised for civilian production. This production will be supplementary to the production of the established industries and is intended merely to narrow the gap between supply and demand as a temporary measure. The most important item which is now being produced in the Ordnance Factories is Road Rollers. There is also a proposal to produce textile machinery and steel billets.

Miscellaneous matters

14. With the gradual return to peace-time economy it has been found possible to dispense with a large number of controls introduced in the war years. With effect from the 1st October 1946 the majority of these controls have been withdrawn retaining (apart from certain essential general controls such as those over imports, exports and foreign exchange) only those on commodities such as coal, textiles, iron and steel which are essential for the rehabilitation of the country's economy.

An expert committee called the Indian Coal-fields Committee was set up during the year to study the problems of the conservation of the coal resources of the country and the rationalisation of coal production. The committee has made far-reaching recommendations on the conservation, production, transport and utilisation of coal and on connected problems of administration and its report is under consideration. Meanwhile, I am sure the House will be reassured to learn that in the view of this expert committee coal will not prove a handicap in the industrial planning of the country.

The Department of Planning & Development was abolished during the year and its functions were transferred partly to the Department of Industries and Supplies and partly to the Co-ordination Committee of the Cabinet, under which a Development Board was set up to consider and co-ordinate the post-war plans for development. The Department of Labour had grown too unwieldy, particularly in view of the growing importance of the problems connected with labour and labour welfare, and has been split up into two separate departments of Labour and Works, Mines and Power.

The decision to appoint a Central Pay Commission to enquire into the conditions of service of Central Government servants with particular reference to the adequacy of the pay scales and standards of remuneration was announced last February. The Commission was appointed on the 10th May 1946 under the chairmanship of Sir S. Varadachariar, retired Judge of the Federal Court. It has nearly completed its task and steps have been taken to deal with its recommendations as expeditiously as possible. As the House is aware, an assurance has already been given that any changes in the rates of pay following the decisions on the Commission's recommendations will be given effect to from the 1st January 1947.

The allowances sanctioned on account of the cost of living to the lower paid staff were reviewed last summer and it was decided to sanction certain further concessions by way of interim relief. The cost of these concessions falling on civil revenues excluding Railways and Posts & Telegraphs is estimated at Rs. 2 crores.

I would like now to mention a recent decision of considerable importance, namely, the setting up of a Commodities Prices Board under the Finance Department. Hon'ble Members are well aware that a sound price structure is of critical importance to the economic health of the country, especially during the period of transition following on the economic upsets created by a total war. Concrete issues arise from time to time on which differing views are advanced not only as between the Provincial and Central Governments, the producers and the consumers but also as between the various departments of the Central Government itself. It is for these reasons that it was decided to set up an expert and full-time body to assist and advise Government in the formulation and administration of an appropriate and consistent price policy. Hon'ble Members will be glad to learn that the Board has now been constituted and is ready to embark on the onerous and important task that has been entrusted to it.

FINANCIAL YEAR, 1947-48

Revenue

15. I now turn to the financial year 1947-48. On the existing basis of taxation, the total revenue for the year is estimated at Rs. 279·42 crores compared with Rs. 336·19 crores for the current year.

Customs receipts have been placed at Rs. 89 crores, Rs. 1½ crores more than the revised estimate for the current year. The estimate allows for a full year's revenue from the additional duties imposed this year. Under Central Excise Duties the revenue is estimated at Rs. 40·93 crores but the drop as compared with the current year is mainly in respect of certain special cesses which are funded.

Income-tax receipts have been placed at a total of Rs. 135 crores which includes Rs. 40 crores on account of arrears of E. P. T. and Rs. 7 crores on account of arrears of Central Surcharge. The total divisible pool is estimated at Rs. 76.33 crores and the Provincial share at Rs. 35.16 crores.

The revenue of the Posts & Telegraphs Department is expected to be Rs. 30.2 crores and the working expenses and interest Rs. 25.98 crores leaving a net surplus of Rs. 4.22 crores. As in the current year, the outright contribution of the department to general revenue will be three-fourth of the realised surplus, the department retaining the balance. The accumulated surplus of the department at the end of the current year is expected to be Rs. 8½ crores and it is proposed to give it a rebate of interest on this amount instead of on only Rs. 1 crore as hitherto.

As regards the contribution from the Railways, we are providing for Rs. 7.5 crores. The House is already aware of this estimate from the Railway Budget.

Expenditure

16. *Defence Services.*—Although the general demobilisation of the Armed Forces and the shutting down of the war-time activities of the Defence Services will by the end of 1946-47 have brought us a very long way on the road towards the restoration of a peace regime in this country, the conditions likely to obtain during the year 1947-48 will, in some respects, be far from normal. On the Army side roughly 200,000 men will still remain to be released before the provisional demobilisation target has been reached. This target was prescribed mainly for planning purposes in order to ensure that the gigantic task of demobilising something like 1½ million members of the Armed Forces was put through in an efficient and orderly fashion, and does not necessarily correspond to the final post-war Defence Forces to be maintained in this country. The problem of the strength and composition of India's post-war Army, Navy and Air Force, raises numerous considerations of high policy which are at present engaging our earnest attention. Not the least of these questions is the amount of money that India can and should spare for her Defence Budget having regard to the pressing demands on her resources for social and economic development. Another important policy matter that arises in this connection is the extent to which British personnel should continue to be employed in and with India's Armed Forces. The recruitment of British Officers into the Indian Army which ceased on the outbreak of the second World War will not be resumed, and pending the complete nationalisation of that Army British Service officers will be seconded thereto for short terms of service only.

17. A major disturbing factor that will certainly persist throughout the year 1947-48 is that resulting from the existence of abnormally large stocks either held for the future requirements of the Defence Services or thrown up as surplus for disposals. The existence of these stocks necessitates the retention in the Defence Services of a considerable number of personnel who could otherwise be dispensed with, but it is hoped that many of these personnel will be released during the year as the disposal of surpluses progresses.

18. The Financial Settlement between the Government of India and His Majesty's Government relating to the allocation of Defence expenditure between the two Governments comes to an end on the 31st March,

1947, and for the year 1947-48 normal accounting methods will be reintroduced as far as possible. Under the provisions of the Financial Settlement practically the whole of the Defence expenditure incurred by India was charged in the first instance to His Majesty's Government, India subsequently giving credit to that Government for the cost of equipping and maintaining troops and other war-time activities undertaken by her for local defence purposes. With effect from the 1st April 1947 all Defence expenditure incurred by India will be charged direct to her Defence Estimates as was done before the War, but appropriate recoveries will be effected from His Majesty's Government in respect of the cost of Indian troops employed outside India and for any other supplies and services rendered to that Government.

19. For a great number of years India's Defence budget has included provision for what are termed Home Effective charges, representing the amount due annually to His Majesty's Government on account of expenditure incurred by that Government on recruiting, equipping and training British Service personnel for service in India. The amount of this liability was calculated actuarially when the strength of the British troops in India was practically constant, but under the conditions now obtaining, with a much reduced and rapidly dwindling British element in the Defence Forces of India, the calculation of this liability presents very great difficulties. India on her side has a counter claim (which in existing circumstances is substantial) for similar charges in respect of the Indian Army personnel employed by His Majesty's Government overseas, and the amount of this counter-claim too would at present be difficult to determine with any exactitude. A further difficulty arises in respect of the mutual liabilities of the two Governments towards each other in respect of non-effective charges. As the House is aware, agreement concerning these liabilities was entered into by India with His Majesty's Government during the war, but this agreement terminates concurrently with the main Financial Settlement and it is necessary to provide for something to take its place in respect of the liabilities for non-effective charges arising during the year 1947-48. A very rough assessment of the above mentioned claims and counter-claims indicated a substantial net charge to India, but against this could be set the fact that His Majesty's Government make an annual payment (£2,000,000) to the Government of India in accordance with the award of the Garan Tribunal towards the cost of maintaining British troops in India. The problem of how all these liabilities should be assessed in the changed situation with which we are now faced has formed the subject of discussion with His Majesty's Government and, after a broad examination of the financial implications involved and in view of the pressing need for simplification of accounting work, it has been agreed that for the year 1947-48 there should be a mutual waiver of all claims and payments of the nature referred to above. It is felt that in all the circumstances this solution constitutes a fair and equitable settlement for both parties. It must be emphasised that this arrangement has been agreed upon in respect of the year 1947-48 only. The method of adjusting claims and counter-claims of this kind which may arise thereafter will have to be settled by negotiation in the light of the circumstances then existing.

20. I have referred in an earlier part of my speech to the heavy accumulations of stocks in the hands of the Defence authorities in India. Under the operation of the Financial Settlement these accumulations have been

paid for by, and therefore belong to, His Majesty's Government and the Government of India propose to acquire possession of such stocks held on the 1st April 1947 whether for the future use of India's Armed forces or as surpluses awaiting disposal. They also contemplate buying out His Majesty's Government's interest in fixed assets comprising stores buildings, hospitals, workshops, office and residential accommodation etc., that have been constructed during the war at that Government's expense. The terms on which these stocks and assets are to be transferred will be negotiated in the course of the sterling balances discussions. Hitherto the sale proceeds of surplus stores thrown up by the Defence authorities and those resulting from the disposal of fixed assets created during the war have accrued to His Majesty's Government on whom all expenditure connected with their disposal has fallen. From the 1st April 1947, however, in view of the proposed transfers of ownership, all such sale proceeds will be retained by the Government of India. It has been decided that these receipts during 1947-48 as well as those arising from the sale of American surpluses will be kept in suspense outside the Defence Estimates and eventually adjusted as Capital receipts, since their credit to the Defence revenue estimates would tend to obscure the true cost of the defence services. For a similar reason the amount to be paid to His Majesty's Government for the defence stocks transferred to Indian ownership on 1st April 1947 will (when known) be charged to a head outside the revenue estimates of the defence services. It is true that those estimates will from 1st April 1947 have to bear the cost incurred by the defence authorities on the custody, handling and distribution of surplus stores, but against this may be set the fact that no charge will be made against those estimates in respect of the cost of stores used for the equipment and maintenance of the armed forces which are drawn from the transferred stocks.

21. The budget estimates of defence expenditure for 1947-48 amount to Rs. 188·71 crores. The practice introduced during the war of providing for certain classes of expenditure, e.g., on airfields, industrial expansion and new construction for the R.I.N., under a capital head will be discontinued and, commencing with the year 1947-48, all such expenditure will be provided for in the revenue estimates. Owing to the abnormal feature to which I have already referred that will prevail during that year, this estimate cannot be regarded as affording any reliable guide to the probable size of India's normal defence budget of the future.

22. The cost of defence supplies and services likely to be rendered to His Majesty's Government during 1947-48 is estimated to be approximately equal to the cost of similar supplies and services received by India from that Government. Accordingly the year's activities in the defence sphere are not expected to have any net effect on India's sterling balances.

23. *Civil Estimates.*—Civil expenditure next year is estimated at Rs. 139·17 crores, Rs. 4·19 crores less than in the current year. The estimates include a total provision of over Rs. 13 crores under the various heads for expenditure on resettlement and development schemes. Subsidies on imported foodgrains are expected to cost Rs. 17·35 crores against Rs. 20 crores this year. Details of the provision under the individual heads are given in the Explanatory Memorandum.

24. The budgetary position next year may now be summarised. At the existing level of taxation the total revenue is estimated at Rs. 279·42 crores. Expenditure charged to revenue is expected to amount to

Rs. 327·88 crores, of which Rs. 188·71 crores will be on Defence Services, leaving a prospective gap of Rs. 48·46 crores. The figure of Rs. 327·88 crores does not include any expenditure which may have to be incurred as a result of decisions on the recommendations of the Central Pay Commission.

Ways and Means

25. I shall digress at this stage, to give a brief account of the Ways and Means position.

In normal times the scale of Government borrowing is determined by their requirements of funds but in the war years, as the House is aware, it has been the policy to borrow as much as possible without raising the rates so as to draw off the surplus purchasing power in the hands of the community which would otherwise compete for the limited volume of available supplies. As I have mentioned elsewhere, there is still a serious shortage of consumer goods and, till this disparity between the available supplies and purchasing power is substantially reduced, the need to counter inflationary trends must be kept in view in regulating our borrowing.

We had budgeted this year for a total borrowing of Rs. 250 crores from the market and an expansion of our floating debt by Rs. 14 crores. We now estimate that the market borrowings this year would amount to no more than Rs. 112 crores and that the floating debt at the end of the year would be Rs. 4 crores less. We have been unable to reach the target assumed in the budget for a number of reasons. The operations connected with the conversion of 3½% paper to which I shall shortly refer covered the bulk of the slack season when it is usual to float the regular loans. We thus lost valuable time and in subsequent months market conditions became more difficult owing to disturbances in certain parts of the country and the seasonal trade demands for funds. These demands have been heavier than usual due to the increase in prices of certain commodities like mica, shellac, tea and jute, the slower movement of crops in parts of the country affected by the recent disturbances and the lock-up of funds advanced on goods which are held up by transport or other difficulties. The borrowing operations were also hampered by strikes in certain important banks during this period.

26. During the course of this year, the Government of India successfully carried out the greatest conversion operation undertaken so far. The rate of interest on the 3½% non-terminable loans had become out of line with the rate structure for other loans, but as they were liable to be repaid at par after three months' notice, they could not appreciate to a value appropriate to their rate of interest. It was, therefore, decided to exercise the option of repaying these loans and to replace them so far as possible by a 3% undated issue. Two loans were offered in conversion, one a 3% undated issue redeemable at the option of Government after forty years and the other a 2½% issue redeemable in 1976. The conversion was an outstanding success and a tribute to the credit of the Government of India. Out of an outstanding balance of Rs. 273 crores well over Rs. 260 crores were converted, mostly in the 3% undated loan. The annual saving of interest resulting from this conversion will be about Rs. 13 crores.

27. For next year, the market borrowings have been taken at Rs. 150 crores. I have also assumed that Government will exercise the option of repaying the 3% Loan 1947-50, but the final decision will be taken in the course of the year and with reference to the conditions then prevailing.

28. My predecessor mentioned last year the reorientation of the Small Savings Movement from a wartime measure to a peacetime organisation with the primary purpose of encouraging consistent savings among the less well-to-do sections of the community. It will be the policy of Government to encourage the movement in co-operation with the Provincial Governments.

During the last financial year the total investments in small savings amounted to Rs. 62.34 crores while in the first nine months of the current year Rs. 35.38 crores have been invested. For next year the net receipts from this source have been estimated at Rs. 45.45 crores.

Sterling Balances

29. My predecessor last year envisaged a sterling holding of the order of £1330 million by the end of the financial year 1945-46. The total actually reached on 29th March 1946 was £1293 million or Rs. 1724 crores. He thought it possible that the year 1946-47 might see the end of the period of accretions to our sterling balances, and might even mark the beginning of an era of decreasing balances. That anticipation has been more than realised. After reaching a peak figure of £1300 million or Rs. 1733 crores on the 5th April 1946, the balances have shown a steady tendency to decline, the amount on 31st January 1947 being £1204 million or Rs. 1605 crores which means a decrease of about Rs. 128 crores in ten months. This decrease is due largely to the heavy imports of foodgrains which we have been compelled to make during the last year, as well as to imports of fertilisers, stores and equipment on Government account. It reflects also some repatriation of British capital from India and an increasing flow of consumer goods of which the country has been starved during the period of the war. The sterling balances represent, by and large, the entire reserve of foreign exchange which this country will have at its disposal in the years to come for purchases of capital equipment required for our development programme and for meeting any unfavourable balance of payments. It is, therefore, a matter of paramount importance for our future to see that, apart from those consumer goods of which our people are badly and urgently in need, these balances should be wisely spent in the purchase of capital goods and the creation of productive assets, and should not be allowed to be frittered away, for instance on luxuries, trifles or non-essential consumer goods in a manner which does not add to the real wealth of the country. To ensure wise spending abroad is a responsibility of the Government of India and I can assure the House that they are alive to this responsibility.

30. During the last session of the Assembly I gave the assurance that the negotiations for the settlement of the problem of India's accumulated sterling balances would be started as early as possible. For the purpose of expediting these negotiations there have recently been, as the House is aware, preliminary talks of an exploratory nature between the officers of the Finance Department and the Reserve Bank on the one hand and H. M.'s Treasury and the Bank of England on the other. The conversations were extremely useful to both sides. It is expected that they will be continued on a more formal basis towards the end of April. The imminence of constitutional changes consequent upon the latest statement of H.M.G. renders it all the more important that the question of sterling balances should be settled at the earliest possible date. I shall, therefore, try my best to bring to bear on this matter as much expedition as the magnitude of the problem permits. I need hardly assure the House that I am fully conscious

of the fact that our people have gone through untold hardships and suffering to such an extent that hunger and famine have taken a toll of millions of lives and, even to-day, the end of our suffering is not in sight. It must also be borne in mind that all this was because we not only bore our full share of our war burdens under the financial settlement, which was freely agreed to between H. M. G. and the then Government of India, but also had to strain ourselves to assist the United Kingdom and her allies in various ways. Our own share of burdens for which we are making no claim, was enormous and can stand favourable comparison with those borne by the richer nations. I cannot believe that any fair-minded person will wish to deny to a people so poor and backward as we, what is justly due to us and is so greatly needed for raising us from our appallingly miserable condition and it will be my aim to secure a just settlement of our claims.

Empire Dollar Pool

31. My predecessor had dealt at some length with the origin and significance of what is known as the Empire Dollar Pool. In view, however, of the continued misunderstanding in the public mind on this subject the position was again fully explained in a Press Note issued by my Department on October 7, 1946. Honourable members are aware that the termination of India's membership of the Dollar Pool is a matter indissolubly linked with the settlement of the question of the sterling balances and I can safely say that such a settlement will coincide with the termination, so far as we are concerned, of the pooling arrangement.

International Monetary Institutions

32. Before I close my review for the current year I should like to refer, with some gratification, to the notable decision taken by this House on the 28th October 1946 in approving of India's membership of the International Monetary Fund and the International Bank for Reconstruction and Development. It is a decision of far-reaching importance; it signifies our willingness to co-operate with other nations in the international economic fields, and to participate in arrangements devised by common agreement for the better regulation and control of international commercial relationships.

I must also mention here the important decision, taken in the concluding month of last year, to fix the par value of the rupee in connection with our membership of the Fund. This formed an essential preliminary to the commencement of operations by the Fund and all member-countries were similarly called upon to determine the exchange value of their currencies. Our decision not to vary the existing parity rate was taken with due regard to all the relevant factors which bear on this difficult problem, and was in consonance with the vast majority of opinion expressed by public bodies and private individuals qualified to speak with authority on this subject and the majority view expressed by the Hon'ble members of the House consulted by me at a special meeting. I am confident that the decision was a wise one and I derive no little satisfaction from the fact that no country of any consequence has chosen to take a different course.

Necessary provision has been made in the estimates for the payment of our subscription to both the institutions. During the current year a sum of 60 million dollars, representing 15 per cent of our quota, has been paid to the Bank and 5 per cent will fall due next year. The International Monetary Fund has announced its intention to commence operations from

the 1st March, 1947 and our full subscription of 400 million dollars will have to be paid to the Fund during the current year. The total expenditure on account of these subscriptions, which is being taken to capital, is expected to amount to Rs. 152·19 crores this year and Rs. 6·62 crores next year. The bulk of these payments will be made in the form of non-negotiable non-interest-bearing securities, for which provision is being made in the estimates.

Post-war Planning and Development

33. Before dealing with the progress of post-war development and the financial aspect of measures undertaken and contemplated, I would like to refer briefly to the financial resources likely to be available for the purpose. The House will remember that in his Budget Speech for 1944-45, Sir Jeremy Raisman suggested that it would not be unreasonable to expect that, taking Revenue surpluses and borrowings together, the total resources in the first effective quinquennium may be of the order of Rs. 1,000 crores. That tentative estimate was based on certain assumptions, such as the attainment of a reasonably speedy rate of demobilization and an all out taxation and borrowing policy, not all of which have been realised in full. A later estimate prepared on more up-to-date information has shown that on the existing basis only a very small surplus on Revenue account would accrue to the Centre for the quinquennium as a whole and the total resources including borrowing would fall substantially below the figure mentioned by Sir Jeremy Raisman. The House will doubtless appreciate that any estimates framed now would in view of the uncertainty in the constitutional field introduced by the recent announcement of H.M.G. be of no more than academic interest. Until the constitution of the authority or authorities to which the powers and functions of the present Central Government will be transferred is known, it would hardly be prudent to rely, for the quinquennium in question, on a system of Provincial and Central finance based upon the existing constitutional structure. But as I have said before, this does not mean that for next year we should not proceed with our economic programme, particularly in the Provincial sphere. Long term plans the execution of which is entrusted to departments of the existing Central Government would, however, need review in the light of the new situation but everything possible should be done to foster development on a provincial and regional basis. I must, therefore, stress the imperative necessity of mobilizing all our resources to the full, and for the fullest co-operation on the part of the public in all the borrowing operations by Government.

34. The deflationary tendencies which in last year's Budget Speech were envisaged as a possible result of the sudden curtailment of Military expenditure have proved to be less serious than was anticipated. Indeed, during the past year the main problem has been that of preventing a further inflationary rise on prices rather than of mitigating their decline. As the situation developed, it was found necessary to warn Provincial Governments that the works programme in their development schemes should be restricted to what their staffs could execute without undue strain, and within the limitations of material likely to be available, so as to avoid competitive increases of building costs which are already very high. It has been suggested to them that a careful watch should be maintained on the cost of construction of various types of works, so that their works programmes could be eased off if prices showed any tendency to rise and accelerated if there were signs of a general fall in prices.

35. Subject to this warning the Provincial Governments have been encouraged to proceed with their development programmes and considerable progress has in fact been made during the year. As I have already indicated, our financial position is not so satisfactory as had been hoped when the scheme for development grants to the Provinces was first announced, but in spite of this deterioration in our position we shall continue to give every possible assistance to development schemes which are of economic value to the country as a whole. I should only like to emphasise two points in this connection. In the first place I consider it essential that preference should be given to schemes which are designed to secure the development and expansion of the productive capacity of the country. The second point which I wish to emphasise is that even for the period of transition the development programmes can be carried out more successfully if there is full cooperation between the Central and Provincial Governments and full utilisation of Provincial as well as Central resources. The Government of India will make every effort to provide during the next year grants for the Provinces to the extent indicated in the last year's Budget Speech, although these grants are necessarily dependent on our financial position. The development plans on the scale contemplated by the Provincial Governments can be carried out if they are prepared to exploit their own powers of taxation to the full and to supplement the Central grants from the proceeds of such taxation and of their own borrowings. They must learn that they possess borrowing capacity independent of that of the Centre, which cannot borrow on the security of Provincial revenues; and that revenue resources may legitimately be supplemented from loan money for measures calculated to increase national wealth, even though they may not result in direct or immediate revenue return. An increase in real wealth is bound sooner or later to be reflected in larger revenues to the State.

36. During the current financial year we are making advance payments to the Provincial Governments to cover the whole of the expenditure incurred by them on approved development schemes. These advance payments will be taken into consideration when the share of each Province in the total amount available for distribution comes to be calculated. In our budget estimates for 1946-47 we made a lump provision of Rs. 35 crores for such advance payments and for expenditure on "Grow More Food" and other schemes whose cost is shared between the Central and Provincial Governments. Mainly owing to shortages of staff and material, the Provincial Governments have not been able to spend as much as had been anticipated and we now estimate that the total amount required during the current year will be of the order of Rs. 25 crores. In addition to this, loans granted to Provincial Governments for productive schemes are expected to amount to Rs. 11½ crores. In the next year's budget we have provided Rs. 45 crores for development grants and Rs. 32 crores for loans to the Provinces. It is not intended that the grants for next year should, as in the current year, represent the total amount of expenditure incurred by the Provincial Governments on development schemes. I hope that in most cases it will considerably exceed the amount of the grant, but we have not considered it practicable for next year to insist on a specific proportion of the total expenditure being contributed by the Provinces, since some Provincial Governments have at present practically no accumulated funds available for this purpose.

and it will take some time to build up the necessary resources. Other Provinces however, have substantial funds already available for development purposes. Such Provinces will naturally be expected to use a part of their own resources during the year.

37. The Central development plans have also made good progress during the year. These include schemes of agricultural development, training schemes for technical staff and financial assistance to various scientific, medical and technological institutions. We have also made provision for important development schemes in the Centrally Administered Areas and in the Tribal Areas on the North-West and North-East Frontiers of India. The funds provided for development purposes are distributed between many different heads, but I have roughly estimated that, if allowance is made for increases in standing charges, the total provision in the revenue section of the budget (excluding Railways and Posts and Telegraphs but including resettlement schemes) would come to over Rs. 15 crores.

38. One important development which deserves specific mention is the assumption of financial responsibility for the construction of and maintenance of National Highways. It has now been agreed that this change should come into effect on the 1st of April 1947 and we have made a total provision of about Rs. 8½ crores for National Highways expenditure during 1947-48, Rs. 2½ crores in the revenue budget and the balance in the capital budget.

39. Another item which was mentioned last year is the subsidised housing scheme. Owing to the very high cost of building there has not so far been much response to the Central Government's offer to pay 12½% of the total cost of approved schemes. The matter is however again under discussion with the Provincial Governments and we hope they will be ready to proceed with suitable schemes during 1947-48, in so far as this can be done without pushing up prices still further. Meantime the Central Government have themselves approved a special scheme for the housing of coal miners. It has been agreed that as an experimental measure 10,000 houses should be constructed on selected sites in the Bengal and Bihar coalfields and that houses of a similar type should be built for some of the railway collieries. The Central Government will pay a subsidy to the extent of 20% of the cost of these houses, subject to a maximum of Rs. 400 per house, and the balance of the cost will be met from loan funds. Since it is not at present considered practicable to effect large recoveries either from the owners or from the miners we propose to meet the greater part of the recurring charges by means of a small addition to the existing Welfare Cess on the total output of coal.

40. The only other schemes which I wish to mention specifically at this stage are the schemes for river development. I am glad to be able to say that, at a conference held last month, the Departments of the Central Government and the Governments of Bengal and Bihar reached a tentative agreement on the outlines of the Damodar scheme, which involves the building of eight dams and is expected to cost about Rs. 55 crores. A further conference will shortly be held at which we may expect the terms of the agreement to be finalised. The project affects more than one Province and many complex problems arise in reconciling all the interests involved. Considerable progress has been made in finding a suitable solution by the establishment of a Statutory Corporation which will be invested with the necessary authority by the Provinces and the Centre and

financed by them in an agreed manner. It is hoped that a Damodar Valley Corporation will shortly be set up to plan, construct and administer the scheme, and that the construction of certain dams will start during the next cold weather. Considerable progress has also been made with the preliminary enquiries which are being conducted by the Central Waterways, Irrigation and Navigation Commission in connection with the Kosi and Mahanadi development schemes. It is obvious that schemes of this kind are of the utmost importance for the economic development of the country and I hope that the Governments concerned will continue to give them the highest possible priority.

41. As I have indicated earlier, the recent statement of His Majesty's Government has thrown everything into the melting pot and all the schemes for which the present Central Government has taken responsibility will have to be reviewed in the light of constitutional developments.

Part B of the Budget Speech for 1947-48

42. I should like to take this opportunity to emphasise the importance of regional planning in the economy of this sub-continent. The fundamental object of all planning and development is to raise the standard of living of the masses. In order to ensure a uniform improvement in the standard of living, it is essential that all parts of the country, particularly the backward areas, should develop a sound and balanced economy. A balanced economy implies the co-ordinated development of the soil, water resources, electric power, agriculture, industry, health, education and trade and a just and equitable distribution of wealth. Such an economy, in my view, can best be achieved if planning proceeds on a regional basis. The work of the Tennessee Valley Authority provides a classic example of what can be achieved by concentration of planning effort in a backward region. The Indian sub-continent with its population of four hundred million, which is one-fifth of the human race, and its area of nearly sixteen hundred thousand square miles, is far too big to be treated as one unit for the purpose of planning. It is often urged in support of Central planning that it would avoid overlapping and waste of resources. In the present undeveloped state of the country this would appear to be an academic argument which hardly has any relation to facts. The India of today is in such a backward state of development that it may well take at least another generation before we reach a stage when we can talk of overlapping and waste of resources.

43. Before I pass on to my proposals for reducing the gap between revenue and expenditure, the House will doubtless wish for an assurance from me that the estimates of expenditure of the Central Government in the coming year are not in excess of what is essential for the day to day administration and for necessary development. I am aware that there is a feeling in this House that the Central Government expenditure needs scrutiny in certain respects. I agree that, if only for the purpose of conserving our resources for development, there may be certain directions in which such a scrutiny can be usefully exercised. It may, for instance, be found that some of the establishments of the Government of India are susceptible of reduction. Again, certain wartime activities which in the first instance were undertaken to meet specified wartime requirements may have escaped review even though the need for them may have ceased to exist. And, lastly, it may also be necessary to see if the Central Government has undertaken any functions or activities which legitimately fall within the Provincial

sphere beyond what is necessary. Even though the Finance Department, in the course of its day to day working, conducts an examination of expenditure proposals keeping all these considerations in view, I feel that there might be advantages in an *ad hoc* review at this stage by a Committee which would examine the matter in its broad aspects and from a detached point of view. I therefore propose that a Committee, consisting of officials and non-officials, including Members of the Legislature, should be appointed for this purpose. I should, however, make it clear that my object in proposing an Economy Committee of this nature is not to conduct a retrenchment campaign in the sense in which that expression is ordinarily understood. Although inflationary conditions still persist, a thorough going retrenchment drive would not be appropriate with the possibility of a post-war deflation hanging over us, which might necessitate an expansion of public expenditure for counteracting an incipient deflation. What I am really anxious to secure is that the resources of the Central Government are utilised to the fullest advantage of the community and are not frittered away on objects which are neither essential for the day to day administration nor conducive to the development of the country. In other words, economy and the elimination of unnecessary, wasteful or extravagant expenditure is my objective rather than pure retrenchment.

44. An important question which I might mention at this stage is the nationalisation of the Reserve Bank of India. Honourable Members will remember the recent debate in the House which disclosed that there was a general concensus of opinion in favour of nationalisation. I said at the time that I would be prepared to give sympathetic consideration to the proposal for nationalising the Bank if this was found to be in the best interests of the country, after considering all the relevant aspects of the question. I have since given further thought to the matter and am convinced that the advantages of nationalisation outweigh any possible disadvantages. I have therefore come to the conclusion that the Reserve Bank should be nationalised; the time and manner of effecting the change being a matter for separate consideration in due course.

45. There is another matter which I should also like to mention, namely, the question of control over speculation on the Stock market and on the Commodity and Bullion Exchanges. The House will, I am sure, agree with me that in recent years speculative activity has tended to increase, particularly on the Stock Exchanges, with serious consequences on the banking system and credit structure of the country as a whole. Unbridled speculation has been a serious impediment to the growth of proper investment which is an essential condition of economic development. I regard speculation of this kind as a social evil indistinguishable from gambling, and its greatest mischief lies in the fact that it aggravates economic inequalities in a country where such inequalities are already serious. The question of regulating Exchanges has been the subject of a special enquiry by the Economic Adviser of my Department, and the views of Provincial Governments have also been elicited. I hope to place before the House after the necessary examination is completed the measures that may be necessary in this behalf.

46. The proposals that I have to place before this House, whether they involve the levy of fresh or the abandonment of existing taxation, are related, not to purely financial purposes, but to certain social objectives which, I am sure the House will agree, must be kept prominently in view by all those

who have the good of the countless millions of this vast sub-continent at heart. India is a land of glaring contrasts and disparities ; we have here on the one hand a class of multi-millionaires rolling in wealth and holding the economy of the country in their grip by exploiting for their own profit the labour of the poorer classes, and on the other hand the vast multitudes who eke out, somehow or other, a miserable existence precariously near the starvation line. The conditions created by the last war served to accentuate these disparities ; the rich became richer and the poor poorer. This meant the concentration of wealth in fewer and fewer hands and, inevitably, the use of that wealth for the purpose of tightening the stranglehold of Big Money over the economic life of the country as a whole by the acquisition of businesses, companies, public utilities, and the press. A set of conditions in which the few are able to wield such vast power over the many can hardly be regarded as anything but a negation of the principles of social justice. And although I am not one of those who consider the abolition of private property and the complete equalization of incomes as the only remedy for these ills, I do believe in the Quranic injunction that wealth should not be allowed to circulate only among the wealthy, and the stern warning given against accumulations of wealth in the hands of individuals. It is against this background that my budget proposals have been formulated, although I am afraid I cannot claim that they represent anything more than the first stage of a policy of social justice and development which it will require years to bring to full fruition.

47. My first proposal in implementation of the policy I have indicated is the setting up of a Commission to investigate that aspect of the great private accumulations of wealth in recent years which is concerned with our direct taxation. We have heard a great deal for some years past about the enormous amount of income which is alleged to have escaped taxation either owing to deliberate evasion or to the inadequacy of the Income-tax Department or to both. We have also heard of the huge sums that are said to have been made in black-market operations. And I must say that support for these opinions, which have been voiced in the press and elsewhere, is found in the numerous reports of transactions in which businesses and properties of various kinds have changed hands for vast sums of money. The way in which some of these profiteers have flaunted their newly acquired wealth has been something of a public sensation. And when one considers that out of an annual income of Rs. 30 lakhs for the five years 1941-42 to 1945-46 inclusive—and I would point out that an annual income of Rs. 30 lakhs is a very exceptional income having regard to the fact that excess profits tax was in force during those years—*i.e.*, out of a total income of a crore and a half for those five years only Rs. 21 lakhs would have been left after the correct amount of taxation had been paid, one is entitled to ask how the crores of rupees which have figured in many recent transactions were accumulated. There may be a good explanation but, if so, we are entitled to have it. I therefore propose to set up a special Investigation Commission with full powers to get to the bottom of this matter and to make recommendations to Government in regard to such action as may be found necessary.

48. I come now to my taxation proposals. Between the total estimated expenditure, both civil and defence, of Rs. 327.88 crores and the total estimated revenue, at the existing level of taxation, of Rs. 279.42 crores, there is a gap of Rs. 48.46 crores, which will be further enlarged by the withdrawal of the salt tax which I am proposing. This proposal will mean a loss of Rs. 9.25 crores of revenue, to which must be added a further Rs. 1

crore for refunds of duty on stocks. The expenditure on salt administration will be met by adjustment of the selling price of Government salt and of the cess on salt manufactured under licence, thus leaving a net loss of Rs. 8·25 crores. My problem then is how to fill a total gap of Rs. 56·71 crores. I have come to the conclusion that the greater part of this gap should be filled by direct taxation and my proposals for new or increased taxation are designed to yield Rs. 44 crores, of which Rs. 4 crores will go to the Provinces as their share.

49. In regard to the Salt Tax, the objections are well-known—the most valid being that it is laid upon a prime necessity of life and that it is regressive, the poor man paying as much as the rich man and perhaps, if he is a manual worker, even more. On the other hand, the incidence on the individual consumer is light, while the annual yield in revenue amounts to more than Rs. 9 crores. Until recent years, the yield from the tax formed a substantial part of the revenue budget and previous Governments have felt unable to dispense with so large an individual contribution. At the present time, however, the proportion which it bears to the total revenue is comparatively small so that this objection has considerably less force now than before. After careful consideration it has been decided that the tax should now be withdrawn. At the same time, we are impressed with the necessity for maintaining close control over the production of salt in India so as to ensure the maintenance of a high standard of quality and the provision of adequate supplies throughout the land, and to secure the country against periodical shortages due to the cutting off of external supplies. Until now Government's interest in the salt industry has been largely confined to the raising of revenue, hereafter it is intended that its interest should be entirely positive and constructive and should be directed towards developing India's salt resources to their full potential, improving the quality of the salt and making sufficient grades to provide for all classes of consumers, encouraging increased consumption by individuals and by cattle, providing adequate supplies for industrial uses, keeping prices at a minimum and ultimately making India full self-supporting in this important commodity.

The excise duty on indigenous salt and the customs duty on imported salt will accordingly be withdrawn with effect from the 1st April 1947, but Government will continue its own production of salt and will retain control over organised manufacture and will also purchase or control all imported salt. Individuals will, however, be allowed to make or collect salt for their own purposes and those who wish to manufacture for sale will be allowed to do so subject to certain limitations which will be prescribed by rules.

In order to provide that as far as possible the full benefit of the remission of duty is passed on to the consumer, maximum wholesale and retail selling prices will be prescribed and failure to observe these maxima will be liable to penalty.

A Bill giving effect to these decisions and setting up machinery for the future control of the manufacture, import and distribution of salt will be introduced during the course of this session.

In September last year, in order to avert a salt famine which was then threatening owing to the reluctance of wholesale dealers to purchase salt in face of the possibility that the duty might presently be abolished, the salt trade was assured that it would not be put to loss in respect of substantial stocks of salt held at the time when such a change, if decided upon, should

take place. In fulfilment of this promise dealers will be granted refund of duty on all bagged stocks of 30 maunds or more held in their possession on the 1st April 1947.

50. I would like to remind the House that the abolition of the Salt Tax is not the only form of direct relief to the poorer classes. A further and even more effective form of assistance is the expenditure of Rs. 17·35 crores on the subsidisation of imported food and the indirect subsidisation of food produced within the country in the form of 'Grow More Food' grants to which I have referred in an earlier part of my speech. The corner stone of our economic policy is to maintain strict control over the prices of the basic necessities of life, food and cloth, so as to stabilise them at reasonable levels and keep them within the purchasing power of the poorest sections of the population. I am determined to take all steps in my power in furtherance of this policy.

51. In the field of direct taxation, I propose to raise the minimum exemption limit for income-tax, which is now Rs. 2,000 to Rs. 2,500. This raising of the limit will give relief to a considerable number of assessee who are hard hit by present conditions. In proposing this relief I am not unmindful of the feeling in its favour expressed by many members of this House in proposing amendments to former Finance Bills. The cost of the relief will be about Rs. 25 lakhs.

52. Coming now to proposals of additional taxation my most important contribution is the proposal to levy a special income-tax of twenty-five per cent of business profits exceeding one lakh of rupees. The proposals for this tax are contained in a separate Bill and I do not desire to anticipate here the explanation which will be given when the Bill is being considered by this House. But I should like to point out that this proposed tax is very much more simple to operate and very much fairer in its incidence than the Excess Profits Tax. It also embraces professions and vocations which were exempt from the Excess Profits Tax. To prevent hardship in the case of moderate incomes a limit of exemption of one lakh of rupees has been fixed. This in substance corresponds to the "standard profit" under the Excess Profits Tax Act, and only the excess above one lakh will be subject to the tax. The yield of the tax is estimated at Rs. 30 crores for next year.

53. My next proposal is a tax on capital gains. Honourable Members must be well aware of the extent to which large capital gains have been made in recent years and are still being made owing to prevailing conditions. These profits are, as the law stands, outside the scope of the Income-tax Act. I feel very strongly that this lacuna in our legislation should be filled. There is stronger justification for taxing these profits than there is for taxing ordinary income since they represent what is properly described as unearned increment. The U. S. A. taxes such profits. I am well aware that possibly the chief reason why many countries do not seek to tax them is the fear that losses claimed may exceed the profits declared. I am proposing to deal with this contingency as the U. S. A. have dealt with it, by allowing capital losses to be set off only against capital gains. This at least will secure us against a net loss under this head in any particular case. The proposals also distinguish between gains made from the disposal of capital assets held for two years and those held for more than two years. In the case of the former the usual rates of income-tax and super-tax will apply, while in the case of the latter super-tax will not be levied. This distinction, however, does not apply to companies as they are not assessed to graduated rates of super-tax. The proposals further provide for ignoring profits and losses not exceeding

Rs. 5,000 a year. There are two reasons for this exemption. In the first place, we do not want to harass assessees or waste the time of our officers by investigating petty capital transactions and, secondly, we want to exclude the great majority of cases in which assessees dispose of personal possessions. The proposal is expected to yield Rs. 3½ crores next year.

These proposals for taxing capital gains are contained in a Bill, already mentioned, to amend the Income-Tax and Excess Profits Tax Acts which is being placed before the House. The part of the Bill which deals with Excess Profits Tax implements an undertaking previously given to provide for terminal losses. It recognises the fact that some expenses and losses incurred after the 31st March 1946—the date on which the Excess Profits Tax ceased to have effect—should in fairness be treated as relating to the E. P. T. period. It is proposed therefore to allow as a deduction from the profits of the chargeable accounting period ended on that date terminal expenses incurred after it and losses from the subsequent realisation of trading stocks held on that date.

54. My next proposal is to raise the rate of corporation tax from one anna to two annas. This is expected to yield Rs. 4 crores next year.

55. No change is proposed in the rates of income-tax but I feel that our present rates of super-tax are not sufficiently in accordance with modern trends in the taxation of high individual incomes. It seems to me that the maximum rate of ten and a half annas should be reached at points much lower than the present, which are Rs. 3½ lakhs for unearned income and Rs. 5 lakhs for earned income. In the scale which I am proposing the maximum rate is reached at Rs. 1·2 lakhs for unearned income and Rs. 1·5 lakhs for earned income. This will, in effect, mean, that, in these reaches of income the total of income-tax and super-tax taken together will amount to fifteen and half annas in the rupee. This proposal is expected to yield Rs. 2½ crores next year.

56. Finally, I come to the dividend tax which was imposed last year, not for the purpose of raising revenue but in order to discourage the dissipation of a company's resources in excessive dividends. The idea underlying the scheme is that a company should be penalised if it distributed roughly more than one half of its profits left after taxation. So far as we have been able to ascertain from completed assessments, the policy which this tax seeks to enforce has been followed in the great majority of cases. But in order to discourage further those who still persist in distributing what we consider excessive dividends in present circumstances, I propose to tighten up the provision by making the rates of tax more penal. As the proposal will yield no tax if it fulfils its object and as that is my hope, I am estimating no yield under this head.

57. In the field of indirect taxation, I propose to raise the existing export duty on tea from two annas per pound to four annas per pound. This is estimated to yield additional revenue to the extent of Rs. 4 crores in the next year. I should emphasise that this duty is of a temporary nature and if circumstances arise which indicate that there is danger of curtailment of our exports of tea, it may be necessary to reduce the rate.

58. The effect of my proposals is to increase Central revenues by Rs. 39·75 crores which will leave a final deficit of Rs. 16·96 crores. But I must warn the House that the actual deficit may be much larger as the budget does not include any provision for the additional expenditure that may be incurred as a result of the orders that may be passed on the recommendations

of the Central Pay Commission. Some losses in customs duty due to reductions in tariff may also arise as a result of the international trade discussions which are shortly to be held and in which India is participating. But we might reasonably hope that any such losses resulting to the public exchequer will be counterbalanced by the advantages accruing to the people of this country as a result of the tariff concessions which we hope to receive from the other countries in exchange for the concessions made by us.

59. Sir, I have done. We are passing through an exceedingly difficult phase. The transition from war to peace presents the economy of every country with problems of great magnitude and difficulty. In our case there is, superimposed on these problems, the still greater problem of the transfer of power from British to Indian hands. The problem of India's political emancipation with which is linked up the economic well-being of the country is intricate and the task ahead of us difficult. But if we tackle it with wisdom and courage and arrive at a peaceful, just and honourable settlement we will have succeeded in ensuring the future progress and happiness of the peoples of this vast sub-continent. The eyes of the whole world are on us. May Providence help and guide us during the most crucial year of our destiny!

